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AGRICULTURAL FINANCE Outlook

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In analyzing the current situation and outlook, the authors extensively utilized information solicited from the district Farm Credit Banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the Agricultural Committee of the American Bankers Association, the Independent Bankers Association, the farm mortgage departments of several life insurance companies in various parts of the United States, the field staff of the Farm Production Economics Division, and others. These reporters are well qualified to cite pertinent information on the financial condition and prospects of farmers across the Nation. Most of the reports from these correspondents were written in November and December 1971. The authors and readers of this publication are indebted to these cooperators for their contributions.

AGRICULTURAL FINANCE OUTLOOK

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SUMMARY

Farmers in 1972 will continue using more credit in carrying on their business. This prospect reflects the easier money situation, the lowest interest rates in 2 years, and expectations of higher farm incomes. Farm debt (excluding CCC loans) outstanding at the beginning of 1972 was \$63.4 billion. It is expected to rise more than \$4 billion this year.

Interest rates in 1972 will hold near present levels of 1½ to 2 percentage points below the highs of 1970. There may be a slight decline in interest rates on farm loans by midyear and some strengthening by year end.

Farm credit use will increase in 1972, based on prospects for farmers to buy more and higher priced inputs, make further capital improvements, and acquire land for farm enlargement. Use of farm mortgage loans will increase, as postponed improvements and purchases are made, and as some short-term debts are refinanced into loans of longer terms. All traditional lenders figure to be active, including life insurance companies which did little farm lending in most of 1969 and 1970. However, in real estate sales, the easier money situation and lower interest rates may reduce the volume of seller financing.

Larger farm units and greater dependence on labor-saving machinery and purchased farming inputs will cause farm non-real estate credit to expand in 1972. The increase will not be as much as in 1971, however, as there will be less land in production of crops and there will not be as great a tendency for farmers to use short-term loans instead of long-term loans as they did in 1969 and 1970.

Lenders will have sufficient funds to fill loan requests of most credit-worthy farmers. Federal land banks and production credit associations will have little or no difficulty obtaining loan funds through their regular channels. Life insurance companies will invest more heavily in farm mortgages than in the last several years. Commercial banks will generally have adequate funds for farm lending. The Farmers Home Administration will have about the same farm lending level as in 1971 unless provisions are made allowing them to insure operating loans. In that case their volume of lending could expand. Merchants, dealers, and other miscellaneous lenders will likely maintain their proportion of farm debt outstanding.

Farm assets increased \$16.1 billion in 1971 to total \$335.2 billion at the beginning of 1972. The value of farm real estate increased over 4 percent, up from less

than 3 percent a year earlier. Other assets increased at about the same rate as in the last several years.

Farm debt outstanding (including CCC loans) totaled \$65.5 billion on January 1, 1972, up 7.1 percent from a year earlier, leaving farm proprietors' equities at \$269.7 billion. The debt to asset ratio at the beginning of 1972 was 19.5 percent, up from 19.2 percent a year earlier.

OUTLOOK FOR 1972

Most farmers are in moderately better financial condition than a year earlier. With higher net farm income in prospect for 1972, their finances should show improvement. Demand for farm loans will increase over last year. Lenders will have adequate loan funds and interest rates will remain close to present levels.

Interest rates on farm loans in 1972, although relatively high compared with most of the 1960's, will be the lowest in 2 years. The outlook favors some slight decrease in interest rates by midyear with possibly some upward pressure by yearend. The state of the general economy and monetary and fiscal policies will be important determinants in interest rate movements.

Funds for farm loans will be available to lenders for long- and short-term loans in most cases. Life insurance companies are injecting new life into farm mortgage lending. Federal land banks and production credit associations (PCA's) will have no difficulty funding acceptable loan requests. Banks in most places will have more than adequate loanable funds to meet demand.

Gross farm income increased in 1971 but so did production expenses, and realized net income remained about the same as in 1970. Cash savings were replenished to some extent after having been reduced in 1970 for operating expenses. Gross receipts will rise more than offset rising costs in 1972, resulting in a higher net income.

Farmers will continue to increase their use of credit for operating expenses, capital improvements, and farmland investment. The percentage increase in 1972 will likely be less than in 1971, at least for non-real estate credit, but the total dollar increase will be close to that in 1971. Use of farm mortgage loans will increase. Some loans acquired on short terms for purposes ordinarily calling for long-term loans will be refinanced into long-term loans. Some of this shift began in 1971. Federal land banks will probably take advantage of authority granted under the Farm Credit Act of 1971 to make loans up to 85 percent of appraised value of farmland. The previous limitation was 65 percent of the

Lenders cooperating in the survey reported a slight net increase in number and amount of loans made to corporations for farming purposes. They added that most new requests for these loans were from corporations recently created by farm families incorporating their farm businesses.

normal agricultural value. Thus, the FLB's will likely be loaning more money per farm as well as increasing the number of loans.

Among institutional lenders, banks will remain the most important suppliers of short- and intermediate-term credit to farmers. PCA's will likely maintain their annual increase in the 15 to 17 percent range—about double that of banks the last few years. The Farmers Home Administration will be able to increase its operating loan activity if proposed laws are enacted allowing it to insure such loans held by other lenders. In that event, FHA farm operating loans would be much more available. Farm loans held by merchants, dealers, individuals, and miscellaneous lenders will maintain their portion of the total credit market.

Demand for farmland is expected to be slightly stronger in 1972 than last year. Farmland prices will increase at about the same rate as 1971's 5 percent rise. However, any further slackening of interest rates, and the reports that lenders have sufficient funds for long-term loans should step up activity in farmland sales. With improved incomes, farmers will be more optimistic about investing in additional farmland.

Farmers are expressing cautious optimism that the government's new economic program will be successful in keeping the rise in the cost of things they buy below the rise in prices of things they sell. Although raw farm product prices are not directly controlled, farmers express concern over the indirect pressures that controlled prices have on processors who buy raw farm products.

Net income per farm in 1972 will rise at a faster rate than total net income for all farms, due mostly to the declining trend in farm numbers. Nonfarm income of farm operators and members of their households will gain. Operators of smaller and less productive farms will have to turn increasingly to off-farm employment to substantially improve their incomes. Opportunities for off-farm earnings should improve in 1972 as the economy gains momentum.

FINANCIAL DEVELOPMENTS IN 1971

The past year witnessed a most significant change in national economic policy. The August 1971 announcement by the President of the 90-day wage-price freeze gave encouragement to farmers that some relief from the cost-price squeeze was in sight. According to our correspondents, optimism existed in rural areas that the Phase II controls would limit the rate of increase in the cost of purchased farm inputs. In addition, the 7 percent investment tax credit will increase the net returns to those farmers who bought qualifying items. The devaluation of the dollar should have an impact on American agriculture. Other things remaining equal a devaluation of 8 percent means roughly that a foreign importer of American goods can import about 8 percent more with the same amount of his currency than he could before the devaluation. The net effect in the long run should be an increase in U.S. exports unless nullified by foreign import restrictions. To the American farmer it should mean an increase in total sales together with some possible strengthening in farm prices. Also, USDA in late 1971 announced a corn purchase program and an agreement to sell feed grains to Russia.

The Farm Credit Act of 1971 was one of the important pieces of farm legislation. The Farm Credit System, which includes the Federal land banks, the Federal land bank associations, the Federal intermediate credit banks, the production credit associations, and the banks for cooperatives, is now in a better position to meet the growing credit needs of agriculture. Salient features of the revised legislation include: (1) a permissible increase in the size of individual real estate loans from 65 percent of the appraised value of the real estate security plus the cost of stock equal to 5 percent of the loan to a total limit of 85 percent of the real estate value, (2) authority to make loans to rural residents for rural housing financing, (3) authority to make loans for related farm services, and (4) limitation on interest rates on investment bonds sold to members at rates not in excess of allowable interest on savings deposits of commercial banks.

The total value of farm assets rose 5 percent (\$16.1 billion) during 1971 compared with an increase of 3 percent (\$9.5 billion) in the preceding year (table 1 and figure 1). For 1965-69 the annual gain averaged 5 percent.

During 1971 all farm asset groups increased in value. Farm real estate increased 4.2 percent, non-real estate physical assets (mainly crops, livestock and machinery) increased 7.4 percent, and financial assets increased 4.8 percent.

The increase of the non-real estate physical assets from \$80.9 billion to \$86.9 billion was largely due to a 16-percent increase in the value of livestock on farms.

Farmers' continued acquisition of new and larger farm machines resulted in a 4.9 percent increase in inventory value of motor vehicles and machinery to

\$38.4 billion. The 1971 increase in crop assets of nearly 3 percent was due to the record 1971 harvest.

The increase of 4.8 percent in the financial assets of farmers was largely in time deposits and investments in farm cooperative organizations. The latter represent almost one-third of the total farmer-held financial assets included in the balance sheet statement.

Approximately two-thirds of the total farm assets of \$335 billion is represented by farm real estate which increased 4.2 percent in value during 1971.

The national average value of farmland per acre was \$205 on November 1, 1971—5 percent above a year earlier. Regionally, the strongest price increase was 9 percent in the Northeast (table 2). Delaware and Pennsylvania led all States with 11 percent increases (figure 2). The stronger values in this region are due largely to increased urban and recreation demand for farmland.

In the Southeast and Southern Plains¹, a combination of factors influence land prices. Near metropolitan and smaller rapidly urbanizing areas, substantial acreage is shifting to urban use. In more rural areas, commercial farmers are continuing to increase the size of their operating units through enlargement purchases. In the Southern Plains, increased emphasis on feeder cattle production seems to have contributed to increased grazing land values.

California's 9 percent increase in average value of farmland was its sharpest rise since 1963.

Average value of farmland per acre increased only 1 percent in Washington and Kansas between November 1, 1970, and November 1, 1971. In Kansas, land values continued to lag behind the national increase primarily because of rising farm production costs in the face of stabilized gross farm income. In Washington, high unemployment in the nonfarm sector probably resulted in a reduced demand for farmland for nonfarm use.

Farm liabilities on January 1, 1972, including CCC loans totaled \$65.5 billion, an increase of \$4.4 billion (7.1 percent) compared with the previous year's increase of \$3.0 billion (5.2 percent). Both real estate debt and non-real estate debt showed increases over the year-earlier rate. Non-real estate debt increased nearly 10 percent compared with an increase of 4 percent in the real estate debt, continuing the previous year's trend. The sharp rise for non-real estate debt was due to the increased purchase of laborsaving machines at increasing prices, plus use of short-term credit whenever possible instead of long-term credit. Correspondents indicated some transfer of short-term credit to long-term credit during 1971. However, farmers continued to be reluctant to make long-term debt commitments at 1971's high interest rates.

¹ See figure 5, page 11 for delineation of regions.

Table 1.—Balance sheet of the farming sector, selected years, January 1, 1960-72¹

Item	1960	1965	1970	1971	1972 ²	Net change 1971-72	
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Percent³</i>
ASSETS							
Physical assets:							
Real estate ⁴	130.2	160.9	208.2	214.0	223.0	9.0	4.2
Non-real estate	54.7	57.8	78.1	80.9	86.9	6.0	7.4
Financial assets	18.2	19.8	23.3	24.2	25.3	1.1	4.8
Total	203.1	238.5	309.6	319.1	335.2	16.1	5.1
CLAIMS							
Liabilities:							
Real estate debt	12.1	18.9	28.4	29.5	30.7	1.2	4.0
Non-real estate debt to:							
Reporting and nonreporting creditors	11.5	17.1	27.0	29.7	32.7	3.0	9.9
Commodity Credit Corporation	1.2	1.5	2.7	1.9	2.1	.2	11.9
Total	24.8	37.5	58.1	61.1	65.5	4.4	7.1
Proprietors' equities	178.3	201.0	251.5	258.0	269.7	11.7	4.6

¹48 States. ²Preliminary. ³Computed from unrounded data. ⁴Real estate values are as of March 1.

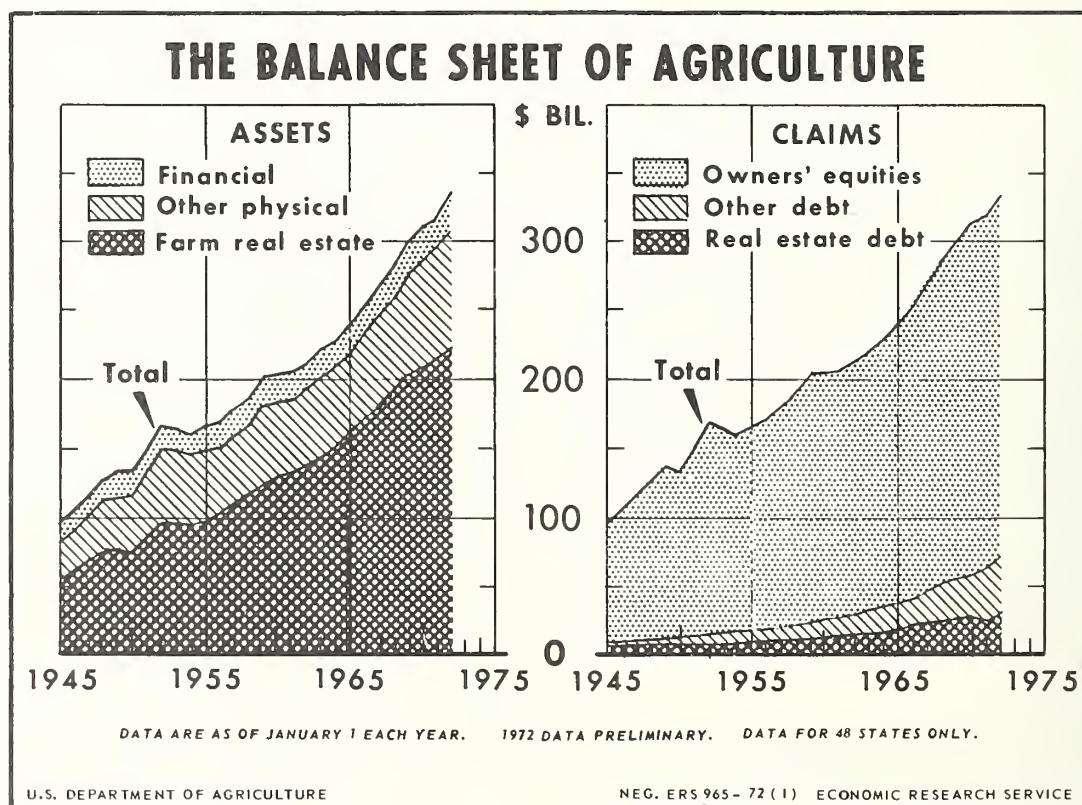


Figure 1

Table 2.—Change in farm real estate values per acre by regions,
selected periods, 1969-71

Region	Change during year ending November 1			Change from March to November in year specified		
	1969	1970	1971	1969	1970	1971
	Percent	Percent	Percent	Percent	Percent	Percent
Northeast	8	9	9	5	4	6
Lake States	6	4	5	4	3	3
Corn Belt	2	2	4	1	0	2
Northern Plains	1	1	2	0	-1	1
Appalachian	3	7	5	1	4	2
Southeast	9	8	8	4	4	3
Delta	8	5	6	4	2	4
Southern Plains	5	3	8	4	2	6
Mountain	2	4	4	1	1	4
Pacific	3	-2	6	1	-2	5
48 States	4	3	5	2	1	3

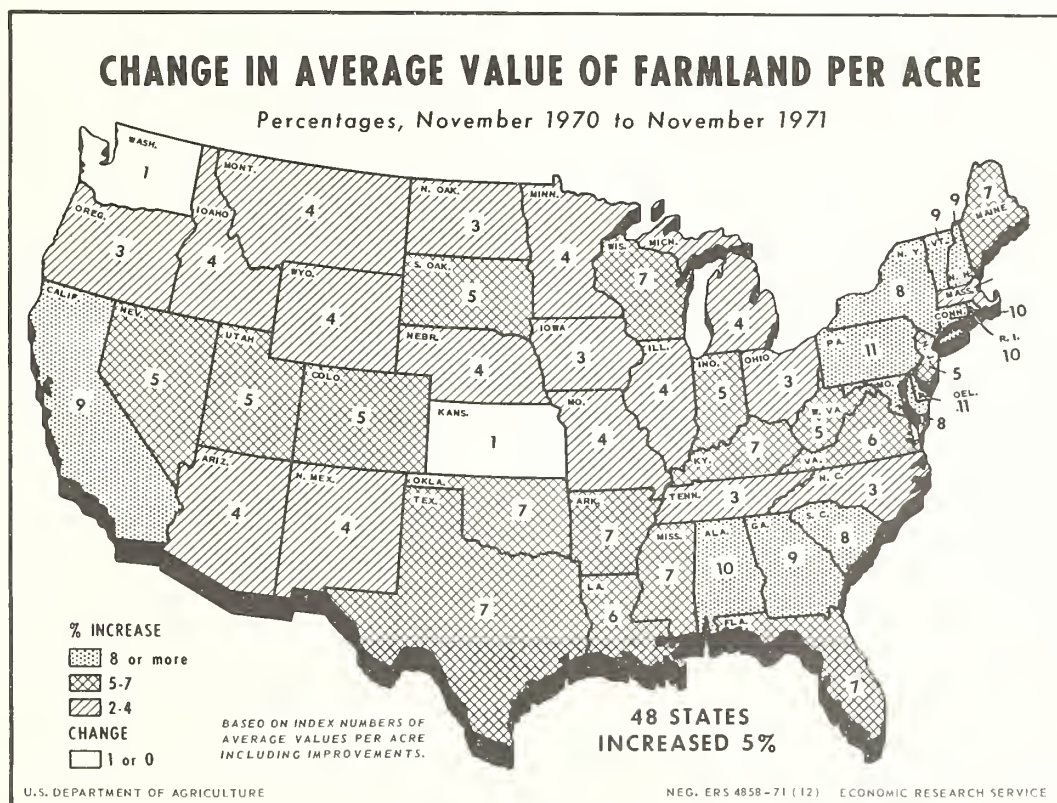


Figure 2

The larger increase in assets than in liabilities resulted in an \$11.7 billion or 4.6 percent increase in proprietors' equities. In 1970 equities had increased 2.6 percent. The debt-asset ratio for 1971 rose to 19.5 percent compared with 19.2 percent a year earlier.

Correspondents indicated loan repayments were generally good throughout the year. Exceptions included

mink growers and, in some areas, potato producers and broiler and egg producers. Although foreclosures on farm real estate mortgages remained insignificant compared with the total debt situation, the average size of loan foreclosed was larger than the average size of loan outstanding and larger than average size of new loan made.

FARM INCOME AND EXPENDITURES

Outlook for 1972

Farm marketing receipts and government payments are expected to increase in 1972 over a year earlier. Prices should remain firm. Increases in consumer income should mean stronger consumer demand, especially for meat. Prices of livestock should remain strong.

With higher farm receipts and less of an increase in expenses than last year, net farm income should increase in 1972.

1971 Income Situation

Farm income was lower in the first half of 1971 than a year earlier but increased considerably in the second half. Realized net farm income for 1971 remained at the \$15.7 billion level of 1970. Net farm income per farm (excluding inventory change) was \$5,468 in 1971 compared with \$5,374 for 1970. Nonfarm income of farmers in 1970 averaged \$5,833 per farm.

Cash receipts from livestock and livestock products increased slightly to \$29.7 billion. Crop marketings rose

\$2.2 billion to \$21.9 billion. Government payments declined about \$½ billion for a realized gross farm income of \$58.6 billion.

Demand for livestock products was strong in the last half of 1971 and prices to livestock producers were above 1970 levels. The 1971 grain harvest was the largest on record and the large production reduced grain prices in the latter part of the year. Total crop receipts, however, rose 13 percent aided by favorable prices for soybeans, cotton, and tobacco.

Farm production expenses increased about \$2 billion in 1971, to a total of \$42.9 billion. Property taxes rose 9 percent, the largest percentage increase of all expenses. Prices of motor vehicles and farm machinery were also above 1970 levels. Feed costs in late 1971 were lower because of the record corn crop, but this increased farm enthusiasm in feeding, causing feeder livestock prices to remain high.

Nonfarm income of the farm population in 1971 did not increase as much as in 1970, but is expected to accelerate in 1972.

FARM DEBT

Outlook for 1972

Correspondents indicate that the demand for farm credit in 1972 will be greater than in 1971. The projected farm debt (excluding CCC loans) on January 1, 1973, is \$67.6 billion, an increase of \$4.2 billion. Adequate funds will be available to meet increased demand. The lower interest rates of 1971 are expected to hold through most of 1972, with the possibility of some increase late in the year if the projected increase in business activity materializes. The reduced level of interest rates will probably result in an additional demand for long-term funds to replace short-term loans acquired during the high interest rate period. Many farmers were reluctant to make long-term financial commitments in 1970 and early 1971, anticipating a decline in rates.

Developments in 1971

The general easing of the money supply in 1971 increased the availability of funds to agriculture. Total farm debt excluding CCC loans rose to \$63.4 billion as of January 1, 1972—an increase of \$4.2 billion

compared with the previous year's rise of \$3.8 billion. The total debt increased 7 percent (table 3 and figure 3).

Total debt continues to be divided about evenly between non-real estate (short-term) debt and real estate mortgage (long-term) debt. On January 1, 1972, non-real estate debt totaled \$32.7 billion and real estate debt \$30.7 billion (figure 4). During 1970, non-real estate debt exceeded real estate debt for the first time since 1953. Due to the increased interest rates, farmers have been reluctant to enter into long-term debt commitments. This situation plus increased use of short-term debt to acquire additional equipment to expand operations, boosted short-term debt more than long-term debt.

Since 1969, annual increases in non-real estate debt outstanding have risen from \$2.2 billion to \$3.0 billion, while the increases in real estate debt outstanding have risen from \$1.1 billion to \$1.3 billion annually. In 1971 this relationship continued.

Farmers paid \$3.8 billion in total interest charges on farm debt in 1971 compared with \$3.7 billion in 1970. The 1971 non-real estate interest charge of \$2.0 billion

Table 3.—Farm debt outstanding January 1, and annual change, 1960-73¹

Year	Debt outstanding January 1			Change in debt during year					
	Total	Real estate	Non-real estate	Dollar change			Percentage change ²		
				Total	Real estate	Non-real estate	Total	Real estate	Non-real estate
	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Percent	Percent	Percent
1960.....	23.6	12.1	11.5	1.2	0.7	0.5	5.0	6.1	3.8
1961.....	24.8	12.8	12.0	2.0	1.1	.9	8.2	8.4	7.9
1962.....	26.8	13.9	12.9	2.9	1.3	1.6	10.7	9.1	12.3
1963.....	29.7	15.2	14.5	3.3	1.6	1.7	11.2	10.8	11.7
1964.....	33.0	16.8	16.2	3.0	2.1	.9	9.2	12.4	5.8
1965.....	36.0	18.9	17.1	4.1	2.3	1.8	11.5	12.1	10.8
1966.....	40.2	21.2	19.0	4.3	2.1	2.2	10.9	10.0	12.0
1967.....	44.5	23.3	21.2	4.5	2.2	2.3	10.0	9.4	10.6
1968.....	49.0	25.5	23.5	2.9	1.6	1.3	6.1	6.5	5.7
1969.....	51.9	27.1	24.8	3.5	1.3	2.2	6.7	4.7	8.8
1970.....	55.4	28.4	27.0	3.8	1.1	2.7	6.9	3.9	10.0
1971.....	59.2	29.5	29.7	4.2	1.2	3.0	7.0	4.0	9.9
1972 ³	63.4	30.7	32.7	4.2	1.4	2.8	6.6	4.6	8.6
1973 ⁴	67.6	32.1	35.5	---	---	---	---	---	---

¹Data for 48 States only. Excludes Commodity Credit Corporation loans. ²Computed from unrounded data.

³Preliminary estimates. ⁴Projected.

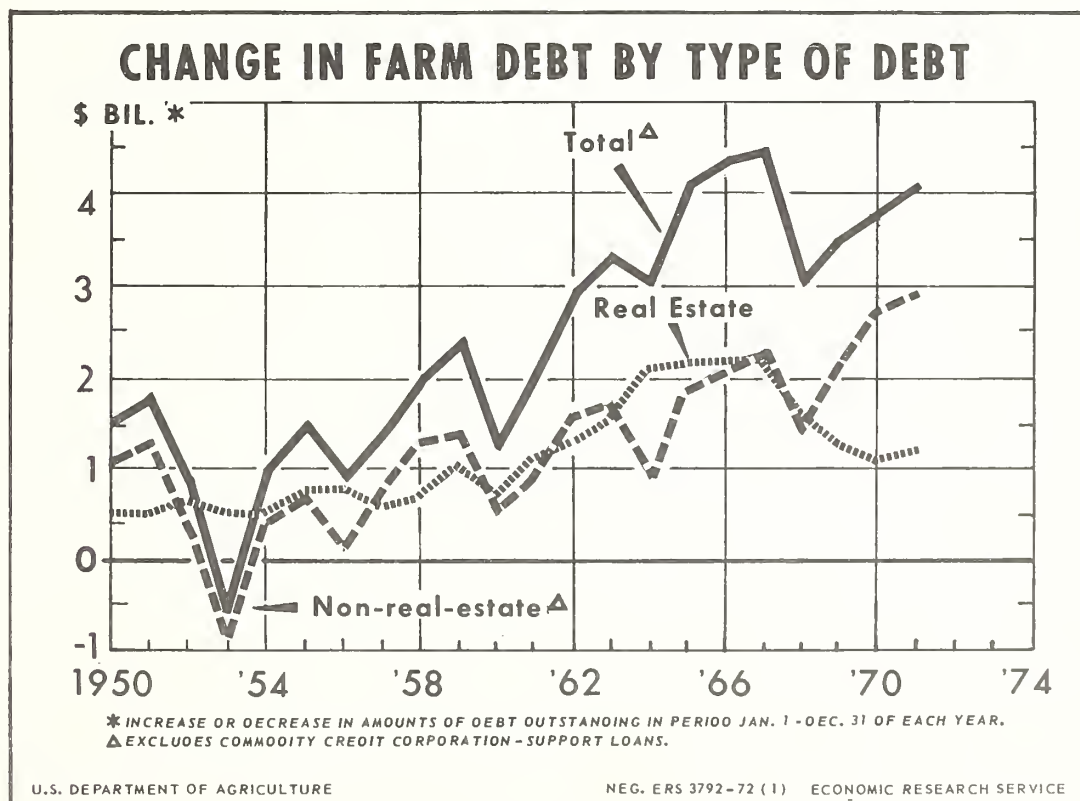


Figure 3

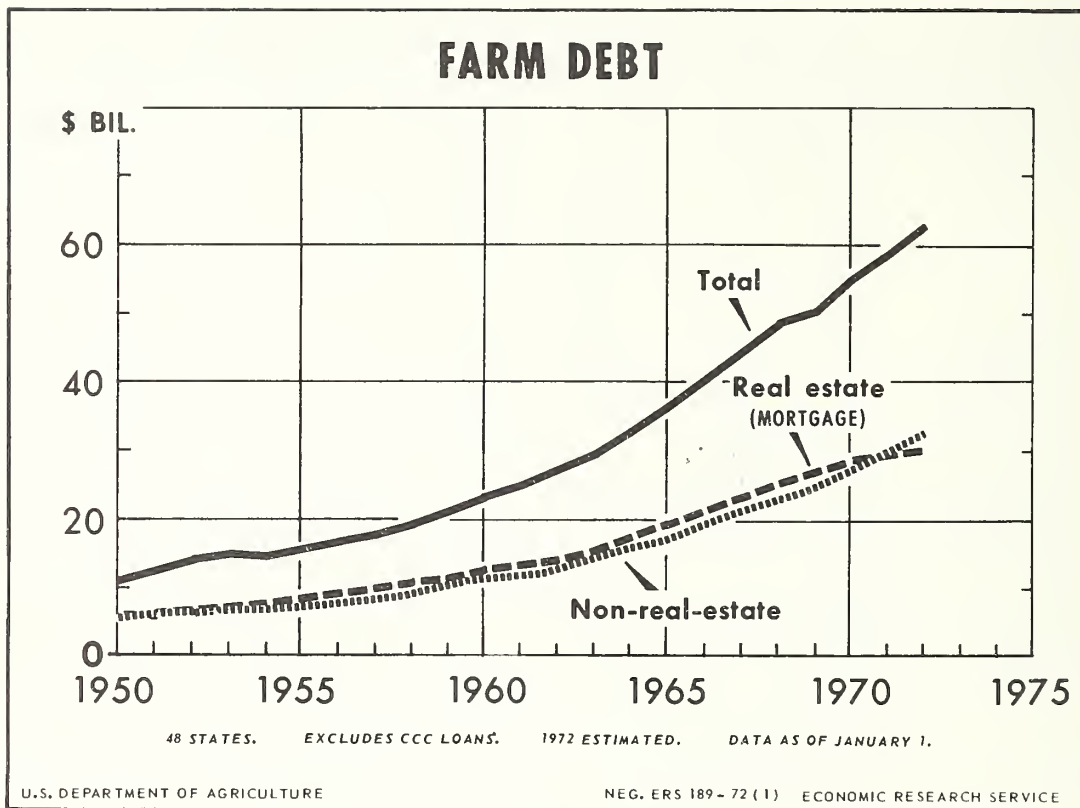


Figure 4

represented about 7 percent of total current farm expenses. The total interest charge of \$3.8 billion represented about 11 percent of total farm production expenses.

Repayments on farm debt in 1971 were generally good. Real estate lenders reported the delinquency rate was about normal most of the year and perhaps less than normal toward the end of the year. Repayments on short-term borrowings appeared to be much better in total than in the previous year.

FARM MORTGAGE DEBT

Outlook for 1972

Total volume of farm mortgage loans made in 1972 will be larger than in 1971, according to correspondents. There will be increased farm demand for funds for investing in facilities and additional land plus a demand for long-term funds to replace short-term borrowings. The increased demand was sparked by the drop of nearly 1 percentage point in interest rates during 1971.

With projected 1972 net farm income higher than in 1971, farm mortgage repayments should be close to the 1971 levels, which were significantly higher than in 1970. With the anticipated increase in new long-term loans and with repayments at about the same level, the total farm mortgage debt outstanding will increase more

than the 1971 increase of \$1.2 billion. The January 1, 1973, total is projected at \$32.1 billion—an increase of \$1.4 billion.

Correspondents agreed that adequate funds will be available to meet the increased demand during 1972. Last year's developments, including lower credit demand by nonfarm borrowers and the dropping of rates to or below the usury rate ceilings in many States, released funds for long-term farm mortgage lending.

The Farm Credit Act of 1971 should increase the supply of loan funds available to rural areas. The authority allowing Federal land banks to increase the limit on loans from 65 percent plus cost of stock to a total of 85 percent of the value of security and the eligibility for rural housing and farm related services for Farm Credit System loans should increase the volume of new loans made by the system.

Interest rates on long-term farm loans will probably remain at current levels or slightly lower during most of the year. Due to the general softening of rates, loans of high quality and moderate size, in particular, should receive lower rates than in 1971. Several correspondents felt that if Phase II of the government's stabilization program is effective, there could be an increase in nonfarm loan demand, causing interest rates to stiffen toward the end of 1972.

Although adequate funds will be available to meet the anticipated increase in farm mortgage loan demand,

several lenders stated they are screening loan applications more carefully.

Except in some depressed areas, farmers should be capable of handling the 1972 debt service charges. Potato, mink and major poultry producers will continued to have problems meeting debt obligations. Potato growers and mink ranchers are faced with a deteriorating financial position resulting from several years of unfavorable returns. Broiler and egg producers in particular were under severe financial pressure in 1971 and many farmers depending on these enterprises entered 1972 in weak financial positions.

Developments in 1971

There were definite financial repercussions in the farm sector during 1971 from developments in the monetary situation of the U.S. economy in 1970 and early 1971. The business recession in 1970 lowered the nonfarm demand for investment funds. This easing of demand was reflected in lower long-term interest rates as the volume of available investment funds increased. The drop in interest rates was sufficient to cause some institutional lenders to resume farm mortgage lending in several States where previously usury ceilings had made such business unprofitable.

During the first half of 1971, farm mortgage recordings by all lenders increased 27 percent over the first half of 1970 (figure 5). The most significant developments in the source of long-term funds were the

resumption of farm mortgage lending by some life insurance companies and the increase in farm real estate loans by savings and loan associations. The recordings by life insurance companies in the first half of the year were 68 percent higher than a year earlier and those by the savings and loan associations 95 percent higher. Another development was the decline in farm real estate financing by individuals. This was due in part to the availability of funds from conventional lenders at more competitive rates.

The Federal land banks continued to expand their total volume of farm mortgage lending. The 40 percent increase in new loans in the first half of 1971 trailed the 68 percent increase by the insurance companies. However, the volume of new loans made by the insurance companies in the year-earlier period was at a reduced level due to restrictions imposed by the State usury ceilings combined with alternative investment opportunities.

Correspondents indicated there was a strong demand for long-term loans in each of the farm production regions. However, increases in farm mortgage recordings ranged widely from 6.5 percent in the Delta Region to 55.8 percent in the Lake States.

The average interest rate for new farm mortgage loans dropped about 1 percentage point during the first half of 1971 from the peak levels of 1970. During the last half of 1971 the rates were fairly stable with a softening tendency. The average interest rate on commitments

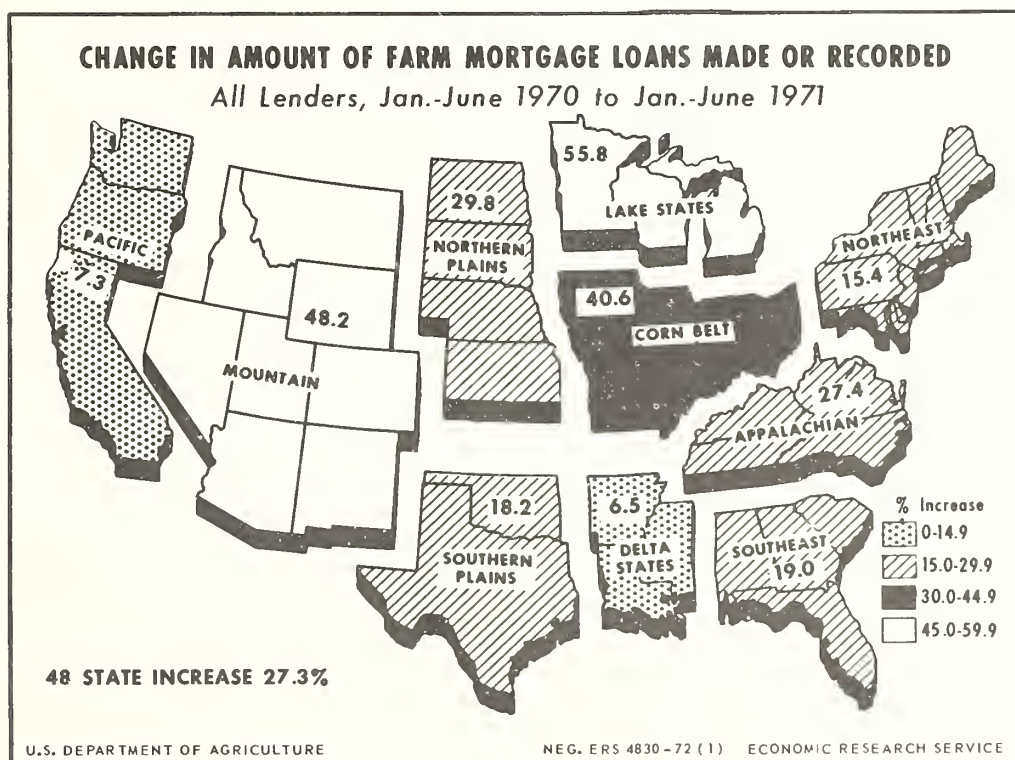


Figure 5

made by life insurance companies during the third quarter of 1971 was 8.45 percent. On September 30, 1971, all Federal land banks were charging 7.5 percent to 8.0 percent. On January 1, 1972, 8 banks were charging 7.50 percent, 2 were charging 8.00 percent, one was charging 7.75 percent, and one 7.00 percent.

NON-REAL ESTATE FARM DEBT

Outlook for 1972

Demand for farm non-real estate credit in 1972 will be brisk but is not expected to match the 10 percent annual increases of 1970 and 1971. The projected total is \$35.5 billion on January 1, 1973, \$2.8 billion above January 1, 1972. Carryover of debt into 1972 was less than in 1971 in many areas because of the damage by Southern corn leaf blight in 1970. However, debt carryover into 1972 was substantial in some areas where cash receipts from potatoes, eggs, broilers, and vegetables were less than expected and where storm damage was heavy. Expenditures for farm machinery and equipment will likely increase. New units bought will be of larger capacity and carry higher price tags than units being replaced. Prices of purchased inputs will be higher than last year but the rise may be slower than in the last several years. The proportion of credit used to finance farmers' purchases will stabilize or slightly increase.

The availability of short- and intermediate-term credit to farmers in 1972 will be largely unchanged from 1971. The most important restraining factor will be the credit worthiness of the farmer.

Interest rates on farm non-real estate loans will probably remain close to present levels. Reporters stated banks were charging mostly in the 7½ to 8 percent range and PCA's were centered around 7 to 7½ percent. There is a possibility that interest rates will move upward slightly in the latter part of 1972. However, that will be too late to materially affect 1972 farm production loans.

Developments in 1971

Farmers used record amounts of short- and intermediate-term credit in 1971. Farm non-real estate debt outstanding (excluding CCC loans) January 1, 1972, was \$32.7 billion, a record increase of \$3.0 billion from a year earlier (table 3 and figure 3). The next largest annual increase was \$2.7 billion in 1970. The percentage increase of 9.9 percent in 1971 was not a record, however.

Institutional lenders held 10.5 percent more farm non-real estate debt at the beginning of 1972 than a year earlier. The 1970-71 midyear comparison also showed a 10.5 percent increase (figure 6). Miscellaneous lenders including merchants, dealers, individuals, and others increased their holdings of farm short- and intermediate-term debt by 9 percent in 1971.

Commodity loans held by CCC were \$0.2 billion higher at the beginning of 1972 than a year earlier. The

\$2.1 billion held January 1, 1972, was up 12 percent. Much of the increase came from larger amounts of 1971 corn placed under CCC loans. The unexpectedly large corn crop depressed the market price to the CCC loan rate or below. Farmers took advantage of CCC loans and held ownership of the corn in expectation of price increases.

Interest rates on farm non-real estate loans were well below the 1970 levels for most of 1971. Interest rates had begun to ease downward in late 1970. By mid-1971, rates were 1 to 1½ percentage points below the historic highs of 1970. Production credit associations moved from an average interest rate, including service fees, of about 9 percent in January 1971 to about 7.2 percent in July. During the same period, rural banks dropped interest rates on farm loans from an average nationally of 8½ percent to about 7½ percent. Banks had not raised interest rates as much as PCA's in 1969 and 1970 and their rates did not drop as much in 1971.

Although interest rates on farm short- and intermediate-term loans were lower in 1971, the interest charge was \$2 billion—about the 1970 mark. Lower interest rates were offset by the larger volume of credit used.

Farmers found it easier to get loans in 1971 than the last several years. Loan funds were more plentiful. As usual, some applicants did not receive the credit they thought they should have. A little higher percentage of banks called on correspondent banks to satisfy requests of farmers for larger loans than the originating bank could handle.

PCA's made loans totaling \$9.4 billion in 1971—14 percent above 1970. Most PCA loan funds are obtained through sales of FICB debentures to investors. The cost of those funds dropped dramatically during 1971 from the high level in 1970. For example, the average cost of FICB debentures outstanding September 1, 1971, was at the same level as in 1968, as shown below:

September 1, 1967	 4.91 percent
September 1, 1968	 5.36 percent
September 1, 1969	 5.93 percent
September 1, 1970	 6.90 percent
September 1, 1971	 5.36 percent

Lower costs of PCA loan funds were reflected in lower loan interest rates charged borrowers. To keep more in line with the actual cost of loan funds, many PCA's adopted the practice of pegging loan interest rates at a certain margin above the average cost of money from the FICB's. This caused more frequent fluctuations of interest rates than in prior years.

The Farmers Home Administration continued to have less funds for operating loans than they had eligible requests for, according to most FHA State directors. Demand increased over a year earlier in many States, but available funds did not increase.

There were several reasons for the increased demand for farm short- and intermediate-term loans. Among the most important was the continuing trend of farmers to

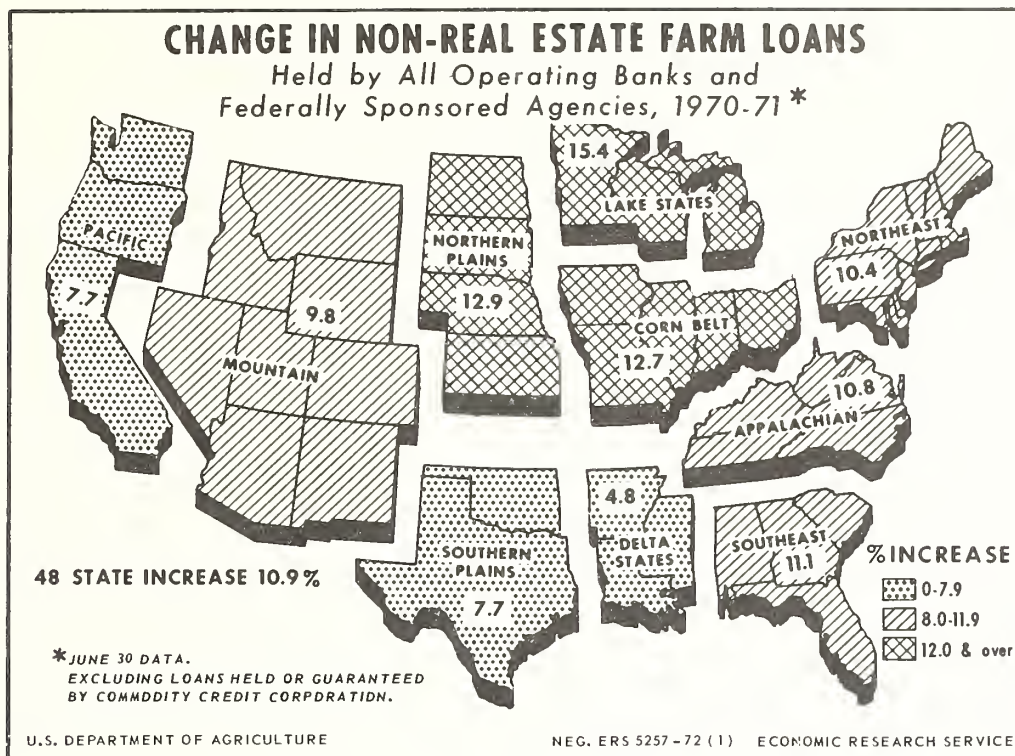


Figure 6

use more purchased inputs. In large areas, corn yields had been severely cut in 1970 by Southern corn leaf blight and loan carryovers were often substantial, resulting in larger total loans in 1971. Machinery and livestock purchases sustained levels reached in 1970 and increased in some areas.

Lower interest rates may have caused some increase in farm operating loan demand, but most reporters felt it was not the important incentive. Probably of more importance was the easier availability of loan funds.

The government's new economic program, initiated

in August 1971, apparently had little direct effect on the farm non-real estate credit situation, according to reporters. Nationally, interest rates reached generally expected lows by midsummer 1971 and lenders' supply of loan funds was more than adequate. Pressures, which were building in some areas to increase interest rates, vanished at the onset of Phase I. The freeze canceled any planned price increases for inputs farmers buy on credit, thereby reducing slightly the amount of credit that might otherwise have been used. Phase II of the program had yet to show discernible direct effects, when reporters made their comments.

REGIONAL SITUATION AND OUTLOOK

NORTHEAST

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	3,776	3,772	-0.1
Crops	1,169	1,185	1.4
Livestock and livestock products	2,607	2,587	-.8
Market value of farm real estate, March 1	10,956	11,655	6.4
Farm real estate debt, Jan. 1	1,819	2,140	17.6
Farm mortgage recordings, Jan.-June	174	201	15.4
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	870	960	10.4

Outlook for 1972

The 1972 outlook for agriculture in the Northeast, except for dairy farmers, is pessimistic for many farmers, according to our correspondents. Low potato prices, abundant apple supplies, egg receipts below costs of production and thin broiler margins, combined with growing tax and labor charges, suggest a low net farm income for the majority of farmers engaged in these specific agricultural enterprises. Dairy farmers are expected to have another good year with lower feed costs and sustained record prices. Prospects for off-farm employment opportunities during 1972 appear better in most of the Northeastern States.

Correspondents indicate little prospect for higher potato prices. Barring some improvement, some producers with current heavy debt loads will have trouble financing their operations in 1972.

Outlook for dairy farmers and those farmers with keen managerial abilities is for income close to 1971 levels.

In most of the region, adequate credit will be available to meet the upward trend in capital requirements. However, in areas near urban centers, some reporters felt that the upward trend in the consolidation of rural banks with larger city banks might reduce availability of credit.

1971 Financial Conditions

The financial position of farmers in the Northeast region at the close of 1971 varied considerably by type of farming. In general, poultry, egg, fruit, and potato farmers were in a poorer financial position than a year earlier, while dairy farmers benefited from favorable prices.

Maine's potato farmers had another poor income year

in 1971. A 1970 crop of less than average quality was stored and when sold in 1971, prices were down about 10 percent from a year earlier and inadequate to cover the cost of production. The 1971 Maine crop which will largely be sold in 1972 was about 6 percent larger than for 1970. However, the total U.S. 1971 crop was 3 percent less than a year earlier.

In Delaware, Maryland, and New Jersey, unfavorable weather caused havoc with most farm crops—particularly vegetable crops. The Governor of Delaware requested and received an emergency FHA designation so farmers would be eligible for emergency loans. In Maryland, grain farmers received less income due to extreme weather variations. In New Jersey, the heaviest rainfall on record left some corn and soybeans unharvested as late as December. In addition, low potato, peach, and egg prices reduced gross incomes.

Correspondents in general stated that there was a strong demand for credit throughout the year. Loan purposes varied but a larger percentage than in 1970 went into land purchases, improved physical facilities, and laborsaving equipment. The general decline in interest rates during the year had a favorable impact on bank credit flows to the agricultural sector. The continued decline in short-term lending rates toward the end of the year suggests that the farm sector should remain in a favorable position to meet at least part of its credit demands through commercial bank loans in 1972.

The Farmers Home Administration reports an increasing number of farmers eligible for FHA loans in the potato and vegetable producing areas, but demand exceeds the funds. Both operating and farm real estate loans continue to increase as the costs of operation, machinery, and land continue to increase. Consequently, the number of farm families that FHA is able to assist with its limited funds continues to decrease.

LAKE STATES

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	4,521	4,734	4.7
Crops	1,287	1,441	12.0
Livestock and livestock products	3,235	3,292	1.8
Market value of farm real estate, March 1	15,284	15,864	3.8
Farm real estate debt, Jan. 1	2,785	2,847	2.2
Farm mortgage recordings, Jan.-June	170	265	55.8
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,704	1,966	15.4

Outlook for 1972

Gross farm income in 1972 will probably increase. Phase II should slow down the rise in cost of some items required in production. However, according to reporters, net farm income may only approximate the 1971 level. Prospects favor increased off-farm earnings based on pickup in the general economy.

Farmers' debts will continue upward in 1972 due to the cost of expansion and purchase of laborsaving equipment. Availability of loan funds to farm lenders should remain plentiful and general lending policies will continue to be expansive to meet the anticipated increase in loan demand. However, the trend by lenders toward more selectivity will be further emphasized.

1971 Financial Conditions

Gross farm income in 1971 rose slightly. Interest rates and feed costs declined but other input costs increased. Net farm income was slightly lower according to reporters. Off-farm income also declined.

The financial savings of farmers did not change significantly, based on the level of deposits in rural banks in the area. However, the financial position of farmers improved due primarily to the increase in land values close to urban areas.

Correspondents reported increased use of credit throughout the area mainly for buying equipment and additional land for farm enlargement. The increased use of credit was sparked by greater availability of funds and lower interest rates. The Federal Land Bank of St. Paul reported that the demand for long-term credit was higher in 1971 than in recent years. The bank also reported increased inquiries and applications for credit from agricultural subsidiaries of corporations with primary interest outside agriculture. However, the increase in the number of corporations being financed is primarily due to the increase in family farm corporations.

Land prices for agricultural use appeared fairly stable throughout the year although there was some upward

pressure largely from farmers seeking to enlarge their operations. The big change in land values has been in speculative land near cities.

To consider the overall financial position of Lake State farmers, one must pay close attention to off-farm employment. In Michigan, for example, off-farm income represents more than half of total income of farm operators. This has enabled Lake State farmers on marginal units to continue farming by holding down other jobs.

Due to the wide diversity of agriculture in the Lake States, cash receipts varied considerably by area. In southwestern Minnesota low crop yields, resulting from dry weather, reduced 1971 cash receipts. However, increased yields for most of Minnesota offset lower crop prices. This was also true for Wisconsin corn producers. Wisconsin farm receipts were enhanced by record prices received for milk and cattle.

Lake State mink ranchers remained in unfavorable financial positions and apparently were unable to cope with the continued price slump of pelts. In late 1971 Congress passed a law making mink farmers eligible for Farmers Home Administration emergency loans.

For Michigan crop producers, 1971 was a mixed year. Many relied heavily on sales of carryover stocks from 1970 at quite favorable prices.

Adverse weather, characterized by dry summer months and a rainy harvest season, resulted in short production of numerous crops in Michigan. Moreover, low yields came at a time when near-record production occurred elsewhere in the country, thus lowering prices and cash receipts. The prime example is corn production. In 1970, Michigan producers raised a record corn crop yielding an average of 79 bushels per acre; and due to leaf blight and the short crop in the Corn Belt, they marketed this crop from the field at \$1.25 per bushel. This year, however, Michigan corn yields dropped to 68 bushels per acre and no. 2 yellow corn was selling for less than a dollar last fall.

Michigan apple production was up 1 percent, with favorable weather contributing to above-average quality.

Apple growers still faced price levels that many claimed would not cover total costs.

Tart cherry producers harvested a short crop for the second year in a row. But unlike 1970, when huge carryover stocks depressed prices, growers received about \$200 per ton, up more than \$50. Analysts also credit the organization of a producer marketing order as contributing to higher prices. They reported that after seeing the bargaining power of such an organization, it

appeared that some processors were willing to pay somewhat higher prices, even though the marketing order had not actually gone into effect.

Michigan sweet cherry growers produced essentially the same amount as in recent years with prices down somewhat from 1970. However, the longer run financial outlook for sweet cherry growers may be more uncertain due to little expansion of U.S. demand and the increasing threat of imports.

CORN BELT

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	11,066	11,595	4.8
Crops	4,176	4,826	15.6
Livestock and livestock products	6,890	6,769	-1.8
Market value of farm real estate, March 1	48,360	49,030	1.4
Farm real estate debt, Jan. 1	5,656	5,735	1.4
Farm mortgage recordings, Jan.-June	542	762	40.6
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	3,772	4,250	12.7

Outlook for 1972

Net farm income in 1972 for the Corn Belt should exceed that of 1971. Farm expenses are expected to continue upward but should be more than offset by higher returns particularly for hogs, beef, and soybeans. Lower corn prices will be offset by increased marketings. An important problem facing Corn Belt farmers in 1972 is how to divide acreage between corn and soybeans.

Correspondents generally believed that Phase II will have little if any effect on gross farm income. However, economic controls should slow cost increases and reduce total costs slightly. A more important influence on farm income will be the possible loss of foreign markets due to the recent strikes by dock workers.

Correspondents generally indicated Corn Belt farmers entered 1972 in a stronger financial position than a year earlier. However, they believed the demand for loan funds will rise as farmers continue to expand their operations to reduce costs per unit. Demand for long-term funds will be particularly strong as borrowers transfer some short-term debt to longer terms. Interest rates will probably remain close to present levels or decline slightly.

Correspondents agreed that adequate funds will be available to satisfy all qualified loan requests. The return to farm mortgage lending by life insurance companies in States with low usury rate ceilings will relieve the pressure on other lenders.

1971 Financial Conditions

Last year was dominated by uneasiness throughout the Corn Belt.

The initial 1971 financial outlook for Corn Belt farmers was discouraging. There was widespread concern over the Southern corn leaf blight and the publicity given to the growth of corporation farming. As the season advanced, concern switched from a possible short corn crop to low corn prices due to a record crop. The folding of some corporate agribusiness ventures reportedly restored some confidence that individual commercial farmers remained crucial to U.S. agriculture. Reporters expressed the feeling that net farm income for the year was about the same as 1970 because of increased production costs.

Cash receipts from marketings for 1971 were 4.8 percent higher than in 1970. Livestock and livestock product receipts declined slightly but receipts from crops jumped.

The most significant factor in decreased 1971 livestock receipts was the low price for hogs. Hog slaughter was up sharply during the first half of the year. However, late spring farrowings fell below a year earlier due to the drop in prices of market hogs. Barrows and gilts at 7 Midwest markets averaged about \$17.50 per 100 pounds during January-June 1971 compared with \$25.00 a year earlier.

Increased crop receipts reflected high prices for the

1970 corn and soybean crops sold prior to the fall of 1971. Although the price for the 1971 corn crop was depressed, total returns increased from the previous year's level due to the record 1971 production. There were the following increases in the 1971 corn crop over 1970—Illinois 41 percent, Indiana 44 percent, Iowa 37 percent, Missouri 57 percent, and Ohio 35 percent.

Based on correspondents' reports, the overall financial position of Corn Belt farmers at the close of 1971 was about the same as a year earlier. However, the correspondents indicated more variation in individual financial position. Indiana bankers indicated a decline in farmers' savings due to the squeeze on net incomes by higher costs. Bankers in Iowa and Illinois indicated increased savings except in southern Illinois where farmers had not fully recovered from the poor 1970 corn crop.

Correspondents were unanimous in reporting increased credit demands in 1971. The increase was due largely to (1) need to refinance 1970 operating loans carried over due to the poor 1970 corn crop, (2) increased capital requirements for expansion, and (3) finance purchases delayed in anticipation of lower interest rates. There appeared to be adequate credit available from regular commercial lenders to meet the demand of qualified farmers. However, there appeared to be a shortage of funds for financing farmers unable to meet commercial lenders' repayment and security requirements. Farmers Home Administration correspondents summarized the situation as follows:

"Application for farm ownership loans (in Iowa) are three times greater than a year ago.

Operating loan applications have almost doubled. Credit is difficult to obtain by young farmers and others who have not demonstrated the ability to organize a successful farming operation."

"The need for farmer credit is greater in Missouri. Many rural bankers are loaned up their limit on operating credit. Due to the legal limit of 8 percent set by law that can be charged to individuals for interest, many large banks and insurance companies are lending to corporations which have a higher legal rate in this state. Delinquencies are higher and foreclosures are more frequent."

Although there was an increase in credit demand to finance machinery purchases, reporters felt that the total demand for new machinery declined. The effective demand came from farmers wanting to expand their operations.

In general correspondents indicated more land sales at higher prices in 1971. However, some reporters indicated only slight if any increase in the southern edge of the Corn Belt. The largest increase in sales as well as in prices occurred near urban areas mostly for industrial expansion.

Credit used by corporations for farming was about the same as in 1970. Most of the farm corporations formed each year are family corporations which continue to be operated much the same as before incorporation.

APPALACHIAN

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	3,880	3,856	-0.6
Crops	1,884	1,908	1.3
Livestock and livestock products	1,996	1,948	-2.4
Market value of farm real estate, March 1	15,279	16,268	6.5
Farm real estate debt, Jan. 1	1,987	2,034	2.4
Farm mortgage recordings, Jan.-June	319	406	27.4
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,226	1,358	10.8

Outlook for 1972

The financial situation of farmers in the region is expected to improve during 1972. Farmers in the eastern counties of North Carolina and Virginia who suffered crop damage from a hurricane in September 1971 and the long wet spell that followed are hopeful those events

will not recur, and farm income will improve considerably. Farmers in other areas are looking forward to a favorable year. Prices for most farm commodities are expected to continue good. Costs are expected to rise, but not as rapidly as in recent years.

The increase in demand for farm real estate loans will probably not be as strong as in 1971. The rise in non-real

estate farm debt is not expected to quite match the percentage increase experienced in 1971. However, dollar volume will approach the gain in 1971.

Ample loan funds will be available to conventional lenders except Farmers Home Administration. That agency will not be able to meet demand with its appropriated loan funds. Federal land banks and production credit associations will begin easing into an expanded loan program authorized by the Farm Credit Act of 1971.

Interest rates are expected to remain near present levels during the first half of the year. There could be some rise in interest rates in the last half depending upon the state of the economy at that time.

1971 Financial Conditions

The financial condition of farmers in the Appalachian region reportedly improved in 1971 except those in the eastern parts of North Carolina and Virginia who suffered storm damage in the fall. Regionally, total cash receipts from farm marketings declined slightly.

Cotton production increased one-fifth with value up one-fourth. Tennessee, the region's major cotton producer, boosted output over one-third and more than offset decreases in North Carolina and Virginia where hurricane damage was extensive. With prices above those of 1970, returns from cotton were up in most parts of the region.

Tobacco production was off about 7 percent due to smaller acreages, near-normal yields and, in North Carolina and Virginia, storm damage. However, record prices in some areas kept cash receipts near the 1970 levels.

Soybean acreage and yields increased, lifting production and value one-fourth. Prices held relatively high. Lack of shipping caused by the intermittent dock workers' strike kept prices from being higher.

Corn production rose two-fifths. Although not an important cash crop, corn is important as a feed crop on many farms in the region.

Peanut producers in the North Carolina-Virginia area felt the effects of storm damage in the fall. Wet fields made harvesting impossible and much of the crop had to be abandoned. Production in that area was one-third less than the year before. Prices were favorable but not nearly enough to offset the crop loss.

Receipts from livestock varied by type of enterprise. Beef production was up, especially in Kentucky, and prices held good most of the year. Hog producers fared better than in 1970. Egg prices were relatively low most of the year and only the most efficient operators and those operating on contract were able to avoid losses. Dairymen had a favorable year.

Off-farm employment of farm operators and members of their households increased and continued to gain importance as a source of cash income, especially for many families on small farms.

Demand for farm credit was strong throughout the area. New farm real estate loans increased when many loans, previously postponed due to higher interest rates, were made and when many short-term loans were refinanced into longer terms. Repayments were reported good and delinquencies few. An exception was in the eastern counties of North Carolina and Virginia where losses from storm damage reduced repayment capacity.

Farm loans were available to credit-worthy farmers. There may have been exceptions where local conditions caused heavy carryovers, thereby releasing fewer funds for new loans. Lenders reported no substantial increase in loan requests from corporations. Most corporations in farming were of families who incorporated for one reason or another with no apparent change in type or scale of farming.

Interest rates were 1 to 2 percentage points below the highs of 1970 for both short- and long-term farm loans.

Regionally, farmland prices advanced at a faster rate than in the last several years, according to reporters. However, the number of land transfers remained low. Demand for farmland appeared to exceed the supply offered for sale.

SOUTHEAST

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent Change</i>
Cash receipts from farm marketings, total	3,596	3,883	8.0
Crops	1,775	2,114	19.1
Livestock and livestock products	1,821	1,768	-2.9
Market value of farm real estate, March 1	13,629	14,713	8.0
Farm real estate debt, Jan. 1	2,027	2,151	6.1
Farm mortgage recordings, Jan.-June	285	339	19.0
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	939	1,042	11.1

Outlook for 1972

The demand for farm credit is expected to continue strong. Most lenders think interest rates will hold near present levels, at least until midyear. Some look for slight increases in non-real estate interest rates in the last quarter of the year.

Most commercial farmers in the Southeast entered 1972 in improved financial condition. Returns from farming in 1971 were sufficient to take care of loan carryovers from the poor 1970 season as well as 1971 obligations.

Net farm income is expected to improve. Soybean and cotton production should expand with prices near those of 1971. Citrus growers are looking for higher incomes with higher prices more than offsetting their smaller crop. Tobacco producers are hoping for prices equaling the record level of 1971. Peach growers are fearful that the unusually warm winter might seriously interfere with proper development of peach buds and result in low-quality fruit.

Livestock farmers are expecting a favorable year with hog producers showing the most improvement. The light occurrence of Southern corn leaf blight in 1971 removed much of the farmers' doubt of their ability to produce corn.

Farmers reportedly are hopeful that the government's economic program will retard the rapid rises in costs of purchased inputs.

Farmers in, or planning to get into livestock, poultry, or dairy production will encounter additional and sometimes sizeable expenses of providing pollution control facilities.

Although loans will be easier to obtain and interest rates lower than the past several years, most reporters felt farm machinery sales will not increase greatly. However, most new equipment sold will be of larger capacity than units being replaced.

Land sales are expected to continue about as in the last few years. Prices being paid for land for nonfarm uses will continue to pull up prices for farmland.

Off-farm income should pick up with improvement in the national economy.

1971 Financial Conditions

Total cash receipts from farm marketings in 1971 exceeded those of 1970. Receipts from crops were well above those of 1970 while those from livestock slipped slightly.

Cotton, soybeans, and peanuts contributed to higher returns from crops. Cotton acreage was up only about 5 percent but yields averaged nearly one-fifth higher than in 1970, carrying production up 25 percent. Prices rose for cotton lint and cottonseed.

Soybean producers continued planting larger acreages and averaged slightly higher yields. Production increased nearly one-fourth. Higher prices for the greater yield pushed cash receipts upward. However, there were large areas, particularly in South Carolina, where weather restricted the soybean harvest.

Tobacco acreage fell about 10 percent; yields were up only slightly, resulting in smaller production. Prices were record high in some areas but not enough to offset the smaller production.

Peanut production was well above the average of the last several years. Favorable prices resulted in higher cash receipts.

Citrus growers are selling a smaller crop of oranges but receiving higher prices than a year ago. A freeze last winter cut production of saleable fruit last year.

Corn production, hit hard by Southern corn leaf blight in 1970, made a dramatic comeback. Production was more than double that of 1970 and over 50 percent above 1969 with Georgia accounting for most of the increase.

Livestock receipts were depressed by lower prices for hogs. Cattle sales were favorable with good prices most of the year. Broiler prices were favorable most of the year, but egg prices were disappointingly low.

Off-farm income of farm operators and members of their households is an important part of the region's

total farmer income. The slack in off-farm income that occurred in late 1970 and early 1971 did not entirely disappear during the year and resulted in little, if any, improvement in nonfarm income.

Several reporters commented on farm property taxes. Reassessment of farm property for tax purposes has resulted in higher taxes for many farmers.

Expenditures for farm machinery were considered about normal by reporters. The trend continued toward machinery of larger capacity.

Land sales were spotty. In areas where nonfarm uses influenced demand, sales and prices advanced. In many strictly agricultural areas there were relatively few sales with prices not much above a year earlier.

Farmers in the Southeast continued to use record

amounts of credit. Loan carryovers from 1970 might have caused indebtedness to be higher than it otherwise would have been. However, higher expenditures for more farm inputs also kept credit use high. Reporters also said that lower interest rates and easier loans may have caused many farmers to borrow for operating expenses and capital purpose items rather than use their own savings.

Interest rates ranged mostly 7 to 8 percent in 1971, nearly 2 percentage points below the record highs in 1969-70.

Repayments on loans were good in 1971 and the financial situation of most farmers remained sound. However, several lenders noted that debt-to-asset ratios were rising and the trend would probably continue.

DELTA STATES

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	2,634	2,853	8.3
Crops	1,279	1,498	17.1
Livestock and livestock products	1,355	1,355	0.0
Market value of farm real estate, March 1	12,717	13,221	4.0
Farm real estate debt, Jan. 1	1,691	1,767	4.5
Farm mortgage recordings, Jan.-June	269	287	6.5
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	909	953	4.8

Outlook for 1972

Gross farm income is expected to rise in 1972. With costs being held to a small increase, net income should exceed the 1971 level. Total credit use will continue strong. There is some likelihood that interest rates will go slightly lower than current rates of 7 to 8 percent. If farm mortgage rates drop, there could be some switching of short- and intermediate-term debt to longer terms. Loan funds will be ample except in unusual cases.

Conditions are favorable for an increase of farmer investment in machinery and other capital investments. Income prospects remain favorable for cotton, soybeans, beef cattle, and dairy farmers. Loan funds will be available and interest rates, though still relatively high, will be 1 to 2 percentage points below levels of 15 to 18 months earlier.

Off-farm income opportunities are expected to improve over 1971. Nonfarm income will continue to be an important part of total income of farmers, especially for operators of marginal units.

Farmers Home Administration reporters stated they will be hard pressed to satisfy the credit needs of eligible applicants.

Possible renewal of the damaging Gulf and Atlantic Coast dock strikes is invoking a cautious attitude among many farmers as they make plans for major purchases in 1972.

1971 Financial Conditions

Most farmers in the Delta States entered 1972 in better financial condition than a year earlier, according to reporters. Income from most crops advanced in 1971. Except for egg and broiler producers, livestock enterprises fared well. The farm income situation would have been stronger except for the dock strike which severely restricted exports of soybeans and other farm products and depressed prices of the products affected.

Cotton acreage for the region was up about 9 percent, helping boost production 11 percent. Most of the increase in production occurred in Arkansas and Louisiana. Hurricane damage held gains in Mississippi to only 3 percent. Cotton prices were well above 1970's.

Soybeans, which for the last several years surpassed cotton as the leading crop in Louisiana and Arkansas, had an average year in the Delta. Yields and production were not much different from 1970, but slightly higher prices raised returns.

Rice allotments and yields were the same as for 1970. Prices rose a little because of the better than usual grade of rice harvested. Returns from sugarcane in Louisiana were only a little above 1970's. Storm damage to acreages in low areas held down yields.

Livestock farmers generally had a year about like 1970. Cattle prices remained favorable. Hog producers were disappointed over the slow price recovery from lows earlier in the year. Broiler producers experienced a poor year with prices not much above those in 1970. Egg producers did not fare as well, as prices were depressed most of the year.

Machinery sales were not noticeably greater than in 1970. Reporters noted a feeling of uneasiness among farmers about going into too much debt for machinery.

Some correspondents reported a fairly good demand for used machinery. Farmers were evidently trying to reduce capital outlay. Where new machinery was purchased, it was larger and more powerful—especially tractors and combines.

Most reporters stated farmland sales were fewer than in the last year or so. Where there was some activity, prices were up only slightly. Sales for nonfarm purposes were reportedly down from recent years.

Farmers had access to much easier credit in 1971 than for the past several years. Interest rates were mostly in the 7½ to 8 percent range—the lowest in 2 years. Even so, no big upsurge occurred in loan volume, according to reporters.

SOUTHERN PLAINS

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	4,195	4,258	1.5
Crops	1,426	1,420	-.4
Livestock and livestock products	2,770	2,838	2.5
Market value of farm real estate, March 1	26,672	27,724	3.9
Farm real estate debt, Jan. 1	2,669	2,679	.4
Farm mortgage recordings, Jan.-June	283	334	18.2
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,892	2,039	7.7

Outlook for 1972

After a 2-year drought, the outlook for agriculture in the Southern Plains is optimistic. With good moisture conditions during late summer and fall of 1971 the production prospects are improved.

Interest rates are not expected to change much for 1972, but any change is expected to be slightly downward.

The demand for loans, both short- and long-term, will increase. New investments in feedlot facilities, however, may level off. Machinery sales are expected to remain steady. The supply of loan funds should rise.

Financial Conditions in 1971

Total receipts from crops were down slightly with drought a major factor. During the first half of 1971, southwestern Oklahoma and parts of Texas had a severe drought which decreased wheat, oats, barley, and rye production. Production of wheat decreased one-third, rye one-fourth, barley over two-fifths, and oats almost three-fourths. From December 15, 1970 to December 15, 1971 the price of wheat decreased about 1 cent, oats increased 5-10 cents and barley 1-4 cents. The price of rye was off slightly in that period. Cotton production

declined about 13 percent. Unfavorable weather in large areas hampered cotton harvesting through the end of the year.

Beef cattle prices were \$5-6 higher per 100 pounds on December 15, 1971, than a year earlier and hog prices were up \$4 per 100 pounds. There were 20 percent more cattle and calves on feed in Texas January 1, 1972, than the year before.

Interest rates were one-half to 1 percent lower in 1971, and loan funds were more readily available. Farm real estate debt outstanding was only slightly changed while recordings in the first half of 1971 were nearly one fifth above the same period in 1970. Land prices increased 6 percent for the region. Most of this increase came from the higher prices for irrigated land.

Non-real estate loans outstanding July 1 increased substantially over the same date in 1970. Machinery sales held steady during 1971. Feeder cattle prices and other production expenses increased to help increase the need for non-real estate debt.

The extreme drought in southwestern Oklahoma reduced the financial position of many farmers. Many ranchers were reported to have liquidated their herds. In eastern Oklahoma, farmers have recovered from the dry conditions a year ago and are reported in better financial

condition. Repayments are reported as being exceptionally good.

Texas farmers' savings in 1971 were reported to be down slightly. Farm foreclosures, while still relatively few, were higher in 1971 than in 1970.

Sheep and goat ranchers in Texas were reported in a

poor financial condition because of depressed prices for wool and mohair.

Loan renewals in Texas were reported as generally going according to repayment plans. Adverse weather in southwest Texas caused some extra renewals. Emergency FHA loans helped in this area.

NORTHERN PLAINS

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	5,483	5,932	8.2
Crops	1,739	2,084	19.8
Livestock and livestock products	3,744	3,848	2.8
Market value of farm real estate, March 1	22,220	22,280	.3
Farm real estate debt, Jan. 1	2,476	2,545	2.8
Farm mortgage recordings, Jan.-June	192	250	29.8
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	2,664	3,006	12.9

Outlook for 1972

Interest rates are expected to remain steady in 1972. The demand for both long-term and short-term funds is expected to remain strong throughout the year.

Machinery sales will probably increase due to the relatively good income year in 1971 and the effect of the investment credit.

Land values are expected to rise little if any because of uncertainties. The unsettling aspects of trade restrictions, dock strikes, and monetary policy are principal factors. However, net farm income is expected to increase slightly in 1972.

1971 Financial Conditions

Interest rates fell about 1 percent in 1971 in most parts of this region for both long- and short-term loans. Demand for credit was strong and farm mortgage recordings increased substantially. Non-real estate debt was also above the amount outstanding July 1, 1970.

Correspondents reported generally steady land values with only a small number of transfers in most areas. Farmland in this region is less influenced by urban expansion than in others. Machinery sales were higher than 1970.

Good crop production boosted crop receipts a fifth

in 1971. Production of corn was up over 25 percent, sorghum grain up 55 percent, and wheat up over 30 percent. Corn prices in this region declined about 16-20 cents per bushel. Wheat price changes varied from 1 cent more in Kansas to 20 cents less in North Dakota between December 15, 1970, and 1971. Flax production declined.

Total receipts from livestock increased slightly. Hog prices were about \$4-5 per 100 pounds higher on December 15, 1971, than the same date in 1970, and cattle prices increased about \$5-7 per 100 pounds.

Off-farm employment is not as available in this region as in other regions with more industry, but a substantial increase in off-farm employment was noted in a survey of financial institutions in the area.

Farmers were reported to be accepting the use of credit as a way to increase farm size and productivity. Loan carryovers and foreclosures were about the same as 1970 in South Dakota. Merchants and dealers were reported to be a little less liberal in providing credit than they had been in past years. Net worth and debts both increased in North Dakota in 1971. Debt increased in Kansas, but bankruptcies, foreclosures, and liquidation sales were about the same as 1970 and indicated no major problems. Financial savings of farmers in Nebraska were reported down.

MOUNTAIN

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	4,054	4,243	4.7
Crops	1,270	1,360	7.1
Livestock and livestock products	2,784	2,883	3.6
Market value of farm real estate, March 1	16,599	16,940	2.1
Farm real estate debt, Jan. 1	2,661	2,744	3.1
Farm mortgage recordings, Jan.-June	232	345	48.2
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,947	2,137	9.8

Outlook for 1972

Interest rates for 1972 are expected to remain steady, especially through the first half. Long-term rates are expected to remain above short-term rates.

A strong demand for long-term loan funds is expected since borrowers have accepted a generally higher level of interest rates.

Gross farm receipts are expected to increase slightly because of the continued strength in cattle prices. Feeder cattle prices may hold strong until late in 1972. Farmland prices are expected to rise slowly in this region except in the areas where urban development or recreational uses will increase the prices substantially.

1971 Financial Conditions

Interest rates in 1971 were down 1 to 1½ percent, with short-term rates declining more than long-term rates. Short-term loans continue to be about 1 percentage point less than long-term rates. Demand for long-term loans increased greatly, with farm mortgage recordings increasing almost 50 percent for January-June 1971 compared with the same period in 1970. Non-real estate debt outstanding July 1 was about 10 percent higher than a year earlier.

Cash receipts from farm marketings increased slightly. Crop receipts, which are only one-fourth of total receipts, increased more than livestock receipts. Wheat production rose 18 percent with the value of production plus marketing certificate payments up 11 percent. Wheat production was higher in all States in the

region except Nevada and New Mexico. New Mexico had a severe drought extending to July 1971 and the irrigation reservoirs are critically low. Barley production was down 2 percent, but receipts were up 12 percent. Barley production declined in Montana and Arizona. Arizona's orange production decreased slightly. Potato production was up slightly in Idaho. Sugarbeet production was up in Colorado.

Livestock marketings increased further in 1971. Beef cattle prices on December 15, 1971, were about \$6 per 100 pounds higher than a year earlier. Cattle on feed January 1, 1972, increased 11 percent in Colorado and 3 percent in Arizona from a year earlier. December 15 hog prices were almost \$4 higher and lamb prices about \$2 higher than a year earlier. Milk prices increased slightly, but wool prices decreased 6 cents per pound. Wool program payments will largely offset this decline.

The financial condition of livestock farmers in this region was reported to be improved over 1970. Delinquencies appeared to be decreasing, but carryovers into 1972 are somewhat greater due to expansion of operations and higher costs of equipment. In western Montana, the general financial situation of ranchers has improved considerably over the last 3 years. Dairy men are also in a better position. Hog and sheep producers are not in as good financial condition. Grain farmers in central and eastern Montana were reported as being in a less favorable financial situation than in 1970.

In Colorado, savings of farmers remained about the same, but they were in a less favorable liquidity position than 1970, according to the reporters.

PACIFIC

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total	5,811	6,293	8.3
Crops	3,461	3,869	11.8
Livestock and livestock products	2,349	2,424	3.2
Market value of farm real estate, March 1	26,499	26,295	-.8
Farm real estate debt, Jan. 1	4,616	4,866	5.4
Farm mortgage recordings, Jan.-June	242	260	7.3
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,747	1,882	7.7

Outlook for 1972

Interest rates on both long-term and short-term loans are expected to remain stable during 1972, after declines in 1971. Demand for long-term credit is expected to continue to increase. Shifting of debt from short-term to long-term is expected to continue with the lower long-term rates.

Funds for making farm loans will be adequate. Lenders report that the quality of loan applications in 1971 improved over 1970, with continued good prospects for 1972.

Net farm income is expected to be at least as high as in 1971. Gross receipts will increase, but production expenses also are expected to continue to increase.

Bankruptcies in the Pacific region, especially in California, have been increasing. Cling peach and cotton producers have increased bankruptcy filings. If grape acreage continues to expand, grape producers may also be faced with financial problems in the next year or two.

New irrigation projects in the west side of the San Joaquin Valley will likely increase production in California.

1971 Financial Conditions

Interest rates dropped about 1 percentage point on long-term loans in 1971 and 1½ percentage point on short-term loans. Demand for loans increased. Farm debt outstanding increased. Farm mortgage recordings rose 7.4 percent in 1971 but remained below the 1969 level.

Most farmland prices were higher especially land that was influenced by demand for housing or development purposes. A notable exception was a sizable reduction since 1968 in the value of orchard land in southern California.

Receipts from farm marketings rose smartly, particularly for crops. California orange production is 14 percent above last season and grapefruit production up slightly. Wheat production in the Pacific region was 18 percent above 1970 and wheat marketings almost 10 percent above. Barley and rye production and cash receipts also increased. Potato production in California was down. Grape and asparagus receipts were up.

Berries, nuts, cherries, pears, and plums all had lower prices. Prunes and cling peaches are still in overproduction.

New grape plantings in California doubled from 1970 to 1971 after almost doubling between 1969 and 1970. Reporters suggested this large increase was due in part to the change in the tax law. Initial expenses to plant and tend citrus and almond groves until they come into production must be capitalized but such expenses for grape plantings may be deducted as annual expenses.

Livestock receipts were 3 percent above 1970. Beef cattle prices were \$6 per 100 pounds higher on December 15, 1971, than the same date in 1970. Hog prices were about \$3 higher. Milk prices were higher in all 3 States. Cattle on feed in California January 1, 1972, increased 4 percent from a year earlier.

The financial condition of farmers in California was reported as good except for crops where overproduction was depressing the market, such as prunes and cling peaches. Loan carryover was down in California and more good quality loan applications were received by lenders in 1971.

Repayments in Oregon were slow and carryover loans high, especially in fruit areas. Financial conditions in Washington were about the same as 1970.

ALASKA

	1970	1971	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i> ¹
Cash receipts from farm marketings, total	4.3	4.1	-3.4
Crops	1.2	1.1	-8.9
Livestock and livestock products	3.1	3.1	-1.4
Farm real estate loans held by reporting lenders, Jan. 1	2.7	2.6	-3.2
Non-real estate farm loans held by banks, PCA's and FHA, July 1	2.4	2.3	-2.7

¹ Calculated from unrounded data..



ALASKA

Outlook for 1972

Alaskan farmers are expected to have slightly higher cash receipts from farming in 1972. Costs are likely to rise about as in the mainland. Net income from farming will be little changed from 1971—which was improved over 1970. The financial position of some farmers improved in 1971 through the sale of farmland, mostly to nonfarm interests, at relatively high prices. The demand for credit will be about the same as in 1971, with possibly some slackening in requests for long-term farm real estate loans. Loan funds are expected to be adequate for lending to credit-worthy farmers.

The number of farms will continue declining. Reporters commented that those remaining will probably benefit from less competition from other farmers and from a more stable marketing situation.

1971 Financial Conditions

Cash receipts from livestock and livestock products

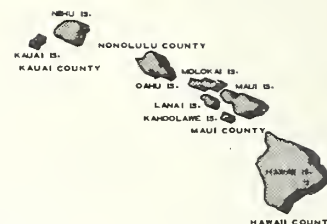
fell slightly in 1971. Dairying is Alaska's main farming enterprise. Crop receipts were well below those in 1970. Most cropland is used to produce hay and other feed crops. Only about 10 percent (or 1,000 acres) of planted cropland is used for food crops—mostly potatoes and lettuce.

A lengthy droughty situation was relieved somewhat in 1971 by natural moisture from rain and snow. Irrigation systems installed in the summer to help relieve a drought crisis of 1970 also proved beneficial in 1971.

The rise in farmland prices slowed. Credit demand was strong in 1971, especially in the first half of the year. Loan funds were reported sufficient to meet demand. Interest rates were lower than the highs of 1970 but, in most cases, not as low as in most other States. Lenders reported good loan repayment—delinquencies were low and there were only a few foreclosures.

HAWAII

	1970	1971	Change
	Million dollars	Million dollars	Percent
Cash receipts from farm marketings, total	211.5	209.5	-0.9
Crops	170.4	167.1	-1.9
Livestock and livestock products	41.1	42.4	3.2
Farm real estate debt, Jan. 1	17.5	23.0	31.4
Farm mortgage recordings, Jan.-June	1.9	1.2	-36.8
Non-real estate farm loans held by banks, PCA's, and FHA, July 1	11.3	11.7	3.5



HAWAII

Outlook for 1972

Interest rates are expected to remain relatively stable. Demand for credit will increase as spending and investment increase. The availability of loan funds should improve.

The sugar industry in Hawaii faces some problems. Two large sugar plantations were in the process of closing in 1971 and a third announced plans to close in 1973. Sugarcane acreage abandoned by these closings represents nearly 10 percent of the total acreage of sugarcane in Hawaii. Environmental regulations will also require large capital investments in 1972 and later years.

Grain sorghum was introduced as a new crop in Hawaii in 1971. If successful, low-cost feed grain will become available for the livestock industry, resulting in greater self-sufficiency in beef, poultry, egg, and dairy

production. Grain sorghum will be grown on former sugarcane land.

1971 Financial Conditions

Demand for non-real estate credit advanced. Farm mortgage recordings, however, dropped one-third from the first half of 1970 to the same period in 1971.

Cash receipts from farm marketings were down slightly in 1971. Receipts from crops were lower, but livestock receipts increased.

Sugarcane production was up about 9 percent. Yield per acre increased from 89 tons in 1970 to almost 96 tons in 1971. The pineapple industry had a relatively good year, but the West Coast dock strike hurt sales in the second half of 1971.

December 15, 1971, hog prices were slightly higher than a year earlier. Beef cattle prices were up, with steers and heifers about \$4 per 100 pounds higher.

PUERTO RICO

Outlook for 1972

The steady growth in the Puerto Rican economy during 1971 has increased the demand for farm products. Purchasing trends were toward higher protein foods, supporting a stronger financial position for livestock farmers. Livestock farmers can expect 1972 to be a good year but crop producers, especially of sugarcane, will face a shortage of labor and higher wages.

1971 Financial Conditions

Gross farm income was reported to be up slightly in

1971. Most of the increase came from livestock and farm subsidies and incentive payments with no significant increase for crops. Receipts from the sale of livestock were higher, with beef reflecting most of the gain.

Sugarcane production declined with a reduced percentage of sucrose content. The price of raw sugar was up slightly, but the gross value of the crop was down. Coffee production increased, resulting in an increased value of the crop in 1971. Gross income from tobacco was lower.

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